

2. PLANNING, PROGRAMMING AND BUDGETING SYSTEM BASICS

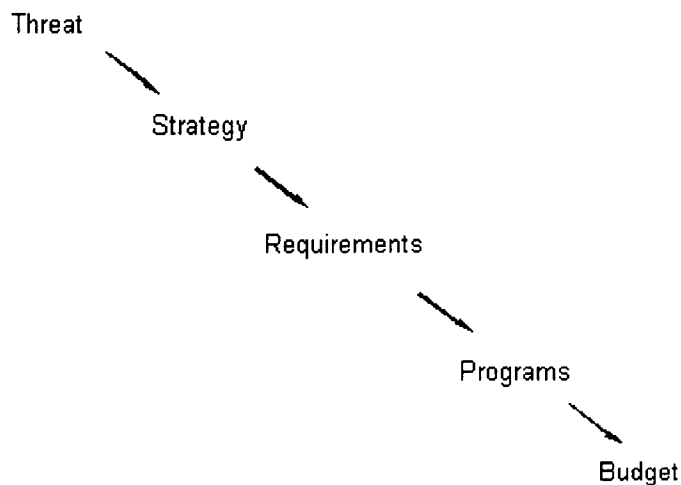
This chapter provides an overview of the DoD Planning, Programming, and Budgeting System (PPBS) ¾ basic concepts, key players, and phases associated with the PPBS are defined. An awareness and introductory-level knowledge of PPBS will provide a foundation for understanding cyclical events in the development of the Navy's R&D program. Although a Project Officer may not be intimately or directly involved in this process, there may be occasion to input into the system when programming for the transition/implementation of research products.

PPBS is essentially a decision-making process for allocating defense resources. It serves to translate force requirements developed by the military in the Joint Strategic Planning Document (JSPD) into budgetary requirements which are then presented to Congress. This process takes almost two years and involves four major players at the Washington, D. C. level (i.e., OMB, OSD, JCS, and the Services) who, through an iterative process, move from broad planning considerations to more definitive program objectives, and finally to specific budget estimates which price out the programs.

PPBS differs from a traditional budgeting process in two significant ways. First, rather than focusing on the existing base and annual incremental improvements to it, PPBS focuses more on objectives and purposes, and the long-term alternative means for achieving them. Secondly, the system brings together planning and budgeting by means of programming, a process through which plans are converted into time-phased and fiscally oriented programs.

The PPBS process, shown in Figure 1.1, can be summarized conceptually as follows: Based on the anticipated *Threat* to American interests, a *Strategy* is developed. The *Requirements* of the strategy are then estimated and *Programs* are developed to package and execute the strategy. Finally, the costs of approved programs are *Budgeted*.

Figure 2.1 PPBS sequence of events



2.1 Appropriations and Programs Funding is approved by Congress in the form of appropriations. By definition, an appropriation is a statute that provides budget authority for federal agencies to incur obligations and make payments out of the Treasury for specified purposes. As shown in Figure 2.2, appropriations are categorized by purpose: Operations and Maintenance, Military Personnel, Procurement, R&D, Military Construction, Family Housing and Others.

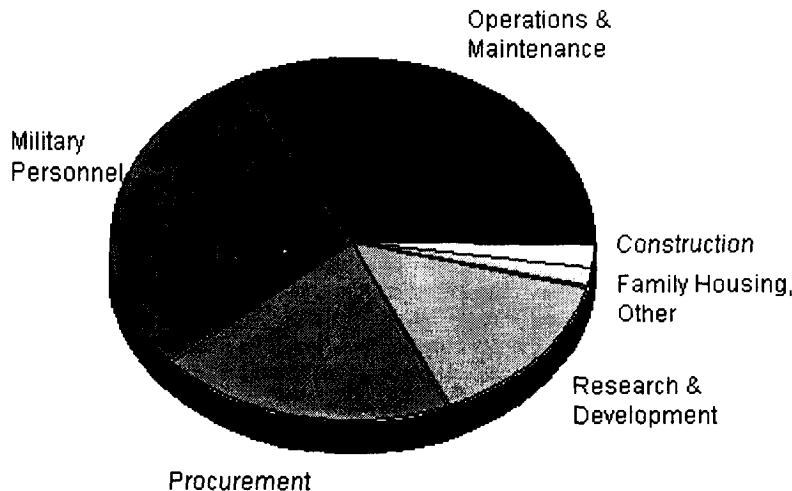


Figure 2.2 Types of Congressional military appropriations

An understanding of several key terms and concepts is essential for the proper use of appropriated funds.

2.0.0.0 Fiscal Year (FY). The fiscal year is a government accounting period that begins on 1 October and ends on 30 September of the following year. It is designated by the calendar year in which it ends (e.g., the fiscal year 1993 is the year beginning October 1, 1992 and ending September 30, 1993).

2.0.0.1 Commitment. A commitment is an *administrative* reservation of funds which authorizes the recipient to create obligations (see section 2.1.1.3) without further recourse to the official responsible for certifying the availability of funds. The act of entering into a commitment is usually the first step in the process of spending available funds. The effect of entering into a commitment and the recording of that commitment on the records of the allotment is to reserve funds for future obligations. A commitment is subject to cancellation by the approving authority if it is not already obligated. Commitments are a prelude to the establishment of an obligation.

2.0.0.2 Obligation. An obligation is a *legal* reservation of funds $\frac{3}{4}$ a duty to make a future payment. The duty is incurred as soon as an order is placed, or a contract is awarded for the delivery of goods and the performance of services. It is *not* necessary that goods actually be delivered or that services actually be performed before the obligation is created; neither is it necessary that a bill, or invoice, be received first $\frac{3}{4}$ the placement of an order is sufficient. An obligation legally encumbers a specified sum of money which will require outlay(s) or expenditure(s) in the future.

2.0.0.3 Expenditure. The term "expenditure" is used to describe the satisfaction of an obligation either through the transfer of funds or the disbursement of funds from the U.S. Treasury.

2.0.0.4 Obligation Availability Period. Appropriations have a specific Obligation Availability Period or duration which specifies how long an appropriation is available for incurring obligations. Some appropriations are incrementally funded on an annual basis; others are fully funded (e.g., dollars are appropriated to fully construct a specific number of ships). Table 2.1 lists selected appropriations, their associated obligation availability periods and funding increments.

Table 2.1 Selected Appropriations and Obligation Availability Periods

Appropriation	Obligation Period	Increment
Operations & Maintenance		Annual
Military Pay	1 year	Fully Funded
Research	2 years	
Procurement	3 years	
Shipbuilding/Construction	5 years	

Annual (one year) appropriations are available for incurring obligations only during the fiscal year specified in the Appropriation Act. Multiple year appropriations are available for incurring obligations for a definite period in excess of one fiscal year. Although the R&D appropriation is legally available for obligation for two fiscal years, the objective is to use these funds during the initial year of availability. If the budget could be executed precisely in accordance with the formulation plan, all funds would be obligated by the end of the first fiscal year and the major portion would have been disbursed. On occasion, because of late appropriations, fund deferrals, significant technical difficulties, protracted negotiations, and other reasons at either the administering office or the performing activity, it may not be possible to execute a project as programmed and budgeted. Hence, the 2-year obligation availability of the R&D appropriation provides for flexibility.

2.1.2 Programs Traditional budgeting is concerned with the input of resources (e.g., appropriations) while program budgeting is concerned with the output of programs. The Program Budget sets forth what accomplishments can be expected from the resources available. Table 2.2 lists the eleven programs which currently identify broad areas of both mission and support. Programs 1, 2, 4, 5 and 11 are considered as force related (force mission) while Programs 3, 6, 7, 8 and 9 are considered as support programs. Program 10 essentially stands by itself. Note that Program 6 consists of all R&D of systems not yet approved for operational use. R&D of systems approved for operational use is included in the relevant major force program.

2.1.3 Program Elements The building block of the Program Budget is the Program Element (PE). It is the smallest part of military resources that is controlled at the DoD level. A PE is a grouping of forces, manpower and costs associated with an organization, a group of similar organizations, a function or a project. The PEs may be aggregated to display the total resources assigned to a specific program; they may be aggregated to families of weapons or support systems within a program; or they may be aggregated to select only identified resources, such as operating costs.

During the PPBS process, plans are translated into programs, changes in PEs are identified and new ones are created. Each PE has a Program Sponsor who is responsible for coordinating the development of proposed program changes, and a Resource Sponsor who reviews and defends the PEs during PPBS.

2.2 PPBS Key Players

2.2.1 DCNO N3/N5 (Plans, Policy and Operations) N3/N5 is the key player in the Planning phase of PPBS.

Table 2.2 PPBS Programs Focus

1. Strategic Forces
2. General Purpose Forces
3. Intelligence and Communications
4. Airlift and Sealift
5. Guard and Reserve Forces
6. Research and Development
7. Central Supply and Maintenance
8. Training, Medical, and Other General Personnel Activities
9. Administration and Associated Activities
10. Support of Other Nations
11. Special Operations Forces

2.2.2. DCNO N8 (Resources, Warfare Requirements and Assessment). N8 is the key player in the Programming and Budgeting phases of PPBS. The CNO relies on N8 to assess, develop, and control the Navy's Six Year Defense Program (SYDP or FYDP, Future Year Defense Program). Three subordinate offices in N8 are key to programming and budgeting:

1. The Programming Division (N80) develops programs which are to be executed two to seven years in the future. N80 issues POM guidance, defends the POM, and appraises resource sponsor proposals for new or revised programs.
2. The Assessment Division (N81) does long-range planning. Using operations research techniques, this division assesses programs and develops long-range financial plans.
3. The Fiscal Division (N82), among other things: (a) develops, reviews, and executes the Navy budget; (b) translates program requirements into appropriation requirements; (c) reports program requirements into appropriation requirements, (d) reports the results of execution to the DoD comptroller, (e) requests allocations for NAVCOMPT; and (f) justifies the budget request to the DoD comptroller.

2.2.3 Appropriation Sponsors Appropriation Sponsors are charged with supervisory control over appropriations. During PPBS, Appropriation Sponsors ensure that the programs submitted are properly structured, priced, supported, and balanced within fiscal controls. They advise Resource Sponsors and N80 on the feasibility of programs and provide recommendations based upon their knowledge of the budget review process. They also testify before Congress. During budget execution, Appropriation Sponsors recommend the reprogramming of funds within their appropriations. The Director of Test, Evaluation and Technology Requirements (N091) is the Appropriation Sponsor for Navy 6.3 R&D.

2.2.4 Program Sponsors Program Sponsors determine the objectives, time-phasing and support requirements for their programs. In addition, they appraise their programs' progress and readiness, and determine the military worth of weapon systems and program capabilities. N1/BUPERS is the Program Sponsor for Navy-wide 6.3 MPT R&D.

Table 2.3 Selected Resource Sponsors

Resource	Sponsor
Platform	
-Surface	N86
-Submarine	N87
-Aviation	N88

Support	
-Manpower & Personnel	N1
(e.g., 6.5, 6.6 R&D)	
-Training	N7
-RDT&E (e.g., 6.3 MPT R&D)	N091
-Medical	N093
-Space and Electronic Warfare	N6
-Plans, Policy/Operations	N3/N5

2.2.5 Resource Sponsors A Resource Sponsor is responsible for an identifiable collection of resources and their contribution towards Navy programs. During PPBS, it is the Resource Sponsors who submit requests for changes in programs, considering the needs expressed by the staff who implement the programs (claimants) and the guidance from N80. In liaison with Program and Appropriation Sponsors, Resource Sponsors develop program appraisals for their respective programs and are responsible for ensuring that their programs are effective, balanced and operated within as signed fiscal controls. Selected Resource Sponsors are listed in Table 2.3.

2.2.6 Assessment Sponsors Assessment Sponsors have three basic tasks: (a) to identify the long and short-term programming issues necessary to maintain current fleet readiness and ensure future force capabilities; (b) to determine the baseline from which assessments are made; and (c) to monitor program development as recorded in the POM (see section 2.3.2). N091 is the Assessment Sponsor for Research, Development and Acquisition.

2.3 PPBS Phases

2.3.1 PPBS Planning Phase Planning, the first phase of the PPBS, starts with the assessment of the threat to the security of the United States and, when combined with national policy, culminates in the development of force objectives to assure the security of the nation. The major steps in Navy planning are:

1. Assess the current situation
2. Determine military strategy and force levels
3. Develop force planning guidance

Once developed, the draft Defense Planning Guidance (DG) is presented to the Secretary of Defense (SECDEF) and to the Commanders-in-Chief (CINCs) of the unified commands. The CINCs have an opportunity to comment on the draft DG and personally meet with the SECDEF to discuss their views and recommendations.

After considering their advice, the SECDEF makes the needed changes and signs the document. The signed DG becomes the final product of the planning phase and the basis for the programming phase.

The Maritime Strategy is also developed during the planning phase. The Maritime Strategy is the Navy's warfighting strategy. It is used by the Navy when developing program objectives during the programming phase and by Congress during their budget review.

2.3.2 PPBS Programming Phase In DoD, programming is the process by which information in the Defense Planning Guidance is translated into a financial plan of effective and achievable programs. Programming takes approximately two years to complete for each budget submitted.

During Programming, Navy commands and activities work within a total dollar financial constraint known as Total Obligational Authority (TOA). This is the amount of funds available to the Navy in a given fiscal year.

The Programming phase results in the development of a document called the Program Objectives Memorandum, or POM. The POM contains information on the Navy programs planned for a six year period. It covers the objectives, planned activities and cost of each program. The first two years of the POM will later be changed into the budget that is submitted to Congress.

During the programming phase, information on current and proposed programs is compiled in the POM and reviewed thoroughly. Part of this review is an assessment of risks and an evaluation of the military advantages and disadvantages of each alternative that has been proposed to meet the risk.

Commands and field activities update their program plans to reflect changing international and national situations, OSD guidance, and technological developments. The Navy programs are often rebalanced, or changed. The POM has fiscal constraints, but sponsors can rebalance programs within the total available resources to create a more balanced program.

The POM highlights the first two years of the six years of new data it contains. For example, the information in POM 96-97 (referred to as POM 96) will be used as the basis for the 96-97 budget. (See Table 2.4.) Also shown in POM 96-97 are the prior and current budget years (94-95) and the next four years (98, 99, 00, and 01).

Table 2.4 POM 96-97

94	95	96-97	98, 99, 00, 01
PY	CY	BY, BY+1	Next 4 years

PY: Prior year **CY:** Current year **BY:** Budget year

The Programming Phase is completed when the SECDEF issues a Program Decision Memorandum (PDM) for each military department and defense agency. The document is arranged by Major Mission and Support Categories and serves as the basis for the upcoming budget submission.

2.3.2.1 POM Serial. The POM Serial is a series of memos from N80 to all offices participating in the development of the POM. It contains detailed instructions on how to complete the Programming phase.

The Programming phase begins with the issuance of the first POM Serial. The first POM Serial provides structure and guidance for the POM development process. It assigns responsibilities to various offices and gives instructions and a schedule for the phase, beginning with program planning. POM Serials are issued throughout the programming phase as situations change. Each one is numbered consecutively so that everyone knows which information is the most current.

2.3.2.2 POM Issue Papers. Claimants and component commanders can provide input to the programming process by submitting POM Issue Papers (or during odd years, Program Review Issue Papers) to their Resource Sponsors for consideration. In POM Issue Papers, they may generally document three to five issues, or requests for changes in programs. For each issue, they indicate the priority of the issue and the offsets from lower priority programs and/or economies (cost savings) associated with their recommendations. Resource Sponsors must address the top five issues of each claimant/component commander later in the programming phase.

To identify and develop these issues, many commands solicit issues from their field activities. Each issue is evaluated and ranked in priority order. Financial management personnel such as budget analysts are involved in the development of claimant POM Issue Papers. They may review, edit, or answer questions from high level officials about the papers. In many cases the papers undergo many rounds of review, appeal and revision before they are complete. Resource Sponsors, the managers who have responsibility for programs and control over the money, respond to the issues.

A POM Issue Paper is designed to identify and define a specific concern and quantify the resources required to alleviate the concern. The objective when preparing an issue paper is to convince sponsors that the program or project being proposed will provide sufficient benefits to justify its cost. Therefore, it is important that the following be thoroughly documented:

- the background of the issue (the need that the program/project will address),
- the anticipated cost of the program/project,
- the benefits of the program/project, and
- how much money and resources the program/project is expected to save the Navy.

A POM Issue Paper is completed according to a standard format; consult with your command's program and budget development division for guidance and assistance. (See Appendix I for an example BUPERS Program Review Issue Paper.)

2.3.3 PPBS Budgeting Phase Budgeting is the final phase in the PPBS cycle. The budget expresses the financial requirements necessary to support approved programs which were developed in the preceding phases of planning and programming. It is through the budget that planning and programming are translated into annual funding requirements. During budget formulation, information that was expressed by mission is now expressed by appropriation. The budgeting phase is completed when the President sends his budget (with DoD input) to Congress in January.

The budget formulation and review process involves two main steps:

1. formulation $\frac{3}{4}$ translating program decisions and costs into proper budget format with review, modification, and approval with the Department of the Navy (DoN), and
2. justification $\frac{3}{4}$ presentation of the budget and several rounds of review and revision until it is finally passed by Congress.

The budget is formulated through a succession of inputs by sub-claimants and claimants. After that, it undergoes several rounds of formal review. By the time the budget is ready for Congressional approval, it has been reworked and refigured many times to make it accurately reflect the Navy's needs while staying within the budgetary constraints of the national economy.

Historically, the government has used an annual budget cycle. It was changed to a biennial, or two-year, cycle as the result of a provision in the FY-86 DoD Authorization Act. The law requires that DoD submit biennial budgets while the rest of the government uses annual budgets. As it stands now, budget formulation (using PPBS) extends over a two year period, and the President's budget reflects two years. However, in the second year the Navy may submit an amendment to the second half of the two-year budget.

2.3.3.1 Budget Call. Budget formulation begins when the Comptroller of the Navy issues a call for budget estimates to the Navy through the CNO and all other major claimants (budget submitting offices). The budget call is based on the budget guidance issued from the Assistant Secretary of Defense (Comptroller). As a result of the budget call, budget submitting offices convert the POM to a budget, changing its format and updating its contents.

2.3.3.2 Budget Request. While a budget call is defined as planning guidance from the top down the chain of command, a budget request is the budget that is submitted up the chain of command.